

September 22, 2008

TO: Independent Auditors Authorized to Conduct Audits of Montana Local Governments

FROM: Local Government Services Bureau, Audit Review Program

RE: Review Checklist

The enclosed document is based on the checklist that we use in our preliminary reviews of all audit reports submitted to our Bureau. In order to reduce the number of audit reports that we require auditors to reissue, we are making this document available to you. It indicates the types of items we examine in our reviews. With all of the new and continuing requirements involved in auditing a governmental entity, it is not unusual for auditors to overlook some issues. The items in this checklist are the ones that we consider the most significant in determining if an audit report is acceptable and reliable. We've reformatted the checklist so that you may use it as a possible pre-issuance checklist.

In addition to our preliminary reviews, we generally also select at least one audit report from each audit firm on our Roster, and perform a more detailed desk review. Our desk review checklist is more voluminous (62 pages) than the preliminary review document. If you would like a copy of the detailed review checklist as well, we would be happy to provide one. We update that checklist annually, generally in late autumn.

If you have any questions, please contact Kim Smith at [kims@mt.gov](mailto:kims@mt.gov) or (406) 841-2905. This document can also be found on our website: <http://doa.mt.gov/lgsb/> (Click on Audit Review Program – Forms and Resources).

## PRELIMINARY REVIEW CHECKLIST – Page 1 of 4

General	
1. Is the scope of audit (A-133 or non-A-133) appropriate for the amount of federal assistance expended by the entity during the year?	
2. Has the report been submitted to the State within State and Federal deadlines (A-133 reports –9 months; GAS-only reports –12 months)?	
Independent Auditor's Report	
3. Are the opinion units referenced in the <u>introductory paragraph</u> and opined upon in the <u>opinion paragraph</u> of the Report the same as the opinion units presented in the <u>financial statements</u> ? (A single-purpose BTA has only one opinion unit – the “basic financial statements”. A single-purpose governmental entity has two opinion units – (1) governmental activities & (2) the major fund. A BTA with more than one enterprise fund presented in more than one column (i.e., water & sewer district) has at least two opinion units – one for each major fund.)	
4. Does the Independent Auditor's Report refer to <i>Government Auditing Standards</i> in the scope paragraph, and does it also make reference to the separate <i>GAS</i> internal control and compliance report? (GAS 5.04)	
5. If one or more of the opinion units is given an unqualified opinion or disclaimer, does the format of the Report <u>clearly</u> describe which opinion units are qualified? (The AICPA-recommended format contains at least two opinion paragraphs when there is an opinion qualification.)(GUIDE-SLG 14.79, Appendix A)	
6. Does the opinion paragraph make reference to “cash flows” and/or to budgetary comparisons, if applicable? (If there is no cash flow statement, or if budgetary comparisons are presented as RSI instead, these references should NOT be made.)	
7. Are all RSI and SI presented in the audit report referenced in either a disclaimer of opinion, or an in-relation-to opinion, and is there a clear distinction between RSI and SI? (There should be only <u>one type</u> of opinion or disclaimer rendered on each RSI or SI component.) (AU §558 & §551)	
8. If RSI is omitted, is there an explanatory paragraph? (AU §558)	
9. Is the Independent Auditor's Report signed and dated, and is there not a significant amount of time between the report date and the date submitted to the State? (AU §530)	
10. Is the date of the Auditor's Report reasonable (i.e., if a 6/30/2008 FYE, is the Report dated <i>after</i> 6/30/2008?), and is the GAS report dated the same as the Auditor's Report? (GUIDE-GAS/A-133 4.26)	
11. Does the Independent Auditor's Report render an opinion or disclaim an opinion on all opinion units of the total Reporting Entity – including all funds and DPCU's? (The Standard Audit Contract requires that the auditor <u>be engaged to audit</u> the complete reporting entity – this allows reliance on an other auditor's report on a DPCU.)	
12. If there has been a change in the reporting entity or other change in accounting principle material to the financial statements, is there an explanatory paragraph included in the Auditor's Report? (AU §420)	
13. <u>If a biennial audit</u> , does the Independent Auditor's Report refer to both fiscal years, and is an opinion rendered on the financial position of the entity as of each fiscal-year end? (i.e., The audit should not be for one two-year period, but instead should be for two separate fiscal years.)	
Financial Statements, including Note Disclosures	
14. Are the financial statements that are presented appropriate for the entity audited? (A single-purpose BTA should have only those financial statements required for enterprise funds. A single-purpose governmental activity should have both GW and fund statements, although these statements may be combined following a GASB-approved alternative reporting format.) (GASB COD 2200)	
a. MD&A (if biennial audit, should include 3 years of financial info);	
b. <u>Government-wide statements</u> : Statement of Net Assets and Statement of Activities (shouldn't include fiduciary funds; DPCU's should <u>only</u> be reported here);	

## PRELIMINARY REVIEW CHECKLIST – Page 2 of 4

<b>Financial Statements, including Note Disclosures – continued</b>	
c. <u>Governmental funds statements</u> : balance sheet ; statement of revenues, expenditures, & changes in fund balances; statements reconciling governmental fund balance to GW net assets and changes in fund balance to changes in net assets); (May also include Budgetary Comparisons if not presented as RSI.)	
d. <u>Proprietary funds statements</u> - statement of net assets or balance sheet, statement of revenues, expenses, and changes in fund net assets/equity, and statement of cash flows;	
e. <u>Fiduciary fund statements</u> - statement of net assets, and statement of changes in fiduciary net assets (each fiduciary fund <u>type</u> should be reported in a separate, clearly-labeled column);	
15. Do net asset and fund balance amounts reported on the various statements reconcile to related amounts on prior-year audited financial statements and other current-year financial statements?	
16. Do financial statements foot and cross-foot correctly?	
17. In the statements that reconcile the governmental statements to the GW statements, do reconciling items materially agree to information reported in the current and prior year audited financial statements and to information disclosed in the notes?	
18. In cash flow statements, do the beginning and ending cash/cash equivalents agree to the cash/cash equivalents reported on the prior-year and current-year proprietary fund statements of net assets?	
19. Is the cash flow statement presented on the direct method, and are cash flows reported in the proper cash flow classifications? (GASB COD 2450)	
20. In audits of counties, is an Investment Trust Fund presented?	
21. Is a Statement of Net Assets and a Statement of Changes in Net Assets presented for all types of trust funds? (GASB COD 2200.175-.177)	
22. Are agency funds presented with only assets and liabilities, and NO equity accounts? (GASB COD 2200.178)	
23. In the Summary of Significant Accounting Policies: (GASB COD 2300.106) a. Do the major funds identified agree to the major funds presented in the financial statements? b. Is there a description (non-generic, specific to the entity) of major funds, internal service funds and fiduciary fund types reported by the entity? (GASB COD 1300.125) c. Is there a discussion of the entity's component units, if applicable?	
24. Do financial amounts disclosed in the notes agree to related amounts reported in the financial statements? (Notes that should be checked include Cash/Investments, Capital Assets, Long-Term Debt, & Interfund Transfers/Balances.)	
25. If the entity is a governmental entity and is NOT legally required to adopt a budget, do the notes (or Notes to RSI) disclose this situation? (GUIDE-SLG 11.16)	
26. If restatements of beginning fund equity are significant in amount (including reclassifications of funds), is there a related note disclosure?	
27. <u>If a biennial audit</u> , are required note disclosures made for <u>each</u> fiscal year?	
28. Do note disclosures reflect current State law, if applicable? (Ex: Budget laws; Fire Dept. Relief Assn. laws; PERS laws)	
<b>RSI &amp; SI</b>	
29. <u>If applicable</u> , are Budgetary Comparison Schedules (RSI) presented after the notes and do they include budgetary information for the general fund and each major special revenue fund that has a legally adopted annual budget? (GASB COD 2200.182 & .183) a. Does the RSI not include budgetary information for debt service or capital project funds? b. If the budget-basis actual column of the RSI differs from the GAAP presentation in the basic financial statements, is there a reconciliation of the two in notes to RSI? c. Is budgetary RSI presented only if the entity is a governmental entity that is legally required to adopt a budget?	

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<b>RSI &amp; SI - continued</b>	
30. <u>If a school district audit</u> , does SI include a Schedule of Enrollment and, are the dates of enrollment reports presented in the Schedule appropriate for the audit period? (A Schedule for FY2008 should include the Fall 2007 & Spring 2008 enrollment reports.)	
31. <u>If a school district audit</u> , does SI include a Schedule of Extracurricular Fund Activities, <u>if applicable</u> ?	
32. <u>If an A-133 audit</u> , does the Schedule of Federal Awards include all information required by the Standard Audit Contract?	
a. Are major programs identified with the correct CFDA number?	
b. Does the beginning balance of the Schedule agree with the balance as previously reported?	
c. If financial statements/notes indicate that loans from federally-funded programs were received during the year, was the federal portion of the loan included in the Schedule? (See checklist item #1, above) (SRF/WRF loans obtained through DEQ generally contain a federal component. For purposes of this schedule, the value of new loans received during the year, plus balances of loans from previous years with continuing compliance requirements (other than pay-back) are considered to be federal "expenditures".) (A-133 §.205)	
<b>Other Auditor Reports</b>	
33. Does the GAS Report on Internal Control and Compliance contain current terminology and is it in a format specific to the results of the audit, as recommended by the AICPA Audit Guide? (If not in the exact format, all required elements should be present, and the same results should be communicated.) (GUIDE-GAS/A-133 4.51, Appendix A)	
34. Are the opinion units referenced in the introductory paragraph of the GAS report the same as the opinion units reported in the financial statements and referenced in the Independent Auditor's Report?	
35. If the GAS Report makes reference to a separate management letter, were copies of the letter submitted with the 4 copies of the audit report submitted to the State? (If NO, contact auditor to obtain copies.)	
36. <u>If an A-133 audit</u> , are all Type A programs audited as major in the current year, if not audited as major in the previous 2 audit periods <u>OR</u> if audited, but if the program had a significant deficiency, material noncompliance or unqualified opinion in most recent audit period? (A-133 §.520; GUIDE-GAS/A-133 9.11)	
37. <u>If an A-133 audit</u> , do the major programs identified in the Summary of Auditor's Results represent 50% of federal awards expended (25% if entity is considered low-risk)?(A-133 §.520; GUIDE-GAS/A-133 9.24)	
38. <u>If an A-133 audit</u> , and if the entity is identified as a low-risk auditee, does it qualify for that designation? (For preceding 2 years, must have annual A-133 audits, unqualified opinions, and no material weaknesses, material noncompliance or QC in a Type A program. An entity that has biennial audits doesn't qualify unless agreed to in advance by the federal oversight agency.) (A-133 §.530; GUIDE-GAS/A-133 9.25)	
39. <u>If an A-133 audit</u> , if a major program is part of a program cluster defined by OMB, are all components of the program cluster audited as part of the major program? (A-133 §.105)	
40. <u>If an A-133 audit</u> , does the A-133 Major Program Report on Compliance and Internal Control contain current terminology and is it in a format specific to the results of the audit, as recommended by the AICPA Audit Guide? (GUIDE-GAS/A-133 12.54, Appendix A)	
41. <u>If an A-133 audit</u> , do the results of the audit, as reported in the GAS Report and the A-133 Major Program Report, agree with the results of the audit as reported in the Schedule of Findings and Questioned Costs (including the Summary of Auditor's Results)?	
42. <u>If a biennial audit</u> , and if the entity expended \$500,000 or more in federal awards in only one of the two years, were both years audited in accordance with A-133? (A-133 §.220)	
43. Do the number and type of findings referenced in the GAS and A-133 reports agree to the number and type of findings reported in the schedule of findings (and management letter, if applicable)?	

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<b>Other Auditor's Reports – continued</b>	
44. Are the following situations included in an audit finding, if applicable:	
a. Matters related to opinion qualifications?	
b. A "SAS 112" finding, when the results of the audit clearly indicate that the entity doesn't have effective internal controls over the GAAP reporting process? (Although this situation involves the auditor's professional judgment, the auditor is required to include a finding when this internal control deficiency is present. The auditor cannot be part of an entity's internal control system.) (AU §325.01, .18 & .19)	
c. Omission of RSI, or material departures from prescribed RSI guidelines? (The auditor is required to apply certain limited procedures to RSI - AU§558.07.)	
d. <u>If a school district audit</u> , any variance in the Enrollment Schedule? (As the funding agency for school districts, OPI has determined that any variance is material for their purposes.)	
e. Any material misstatements in the financial statements (including note disclosures)?	
f. Non-compliance with various laws and regulations that may indicate an internal control deficiency in the entity's control environment? This might include: (Verify that cited law is applicable to the entity.)	
• Significant budget overdrafts (Transfers-out should be budgeted, and should be included in total fund disbursements to determine budget overdrafts.)	
• Failure to meet reporting deadlines established by State and Federal agencies. ( <u>If an A-133 audit</u> , and if the 9-month deadline for audit report delivery is not met, we will assume non-compliance on the part of the auditor unless we receive a copy of a federal agency approval for extension of the deadline, OR unless there is an audit finding related to the entity's failure to meet audit/reporting deadlines.)	
• <u>If a school district audit</u> , significant District-related and other non-student-related activity (ex: Library; Lunch, Drivers' Ed) included in extracurricular funds.	
45. If the entity's response to the findings is included in the audit report, is there a disclaimer of opinion on the response? (GAS 5.35; GUIDE-GAS/A-133 4.33)	
46. Is there a report disclosing action taken by the entity upon prior audit report recommendations? (This report should include the status of any "other matters" presented separately in a management letter.) (See Contract)	
<b>Other</b>	
47. Is the name of the entity referenced correctly throughout the audit report?	